# HOW GOOD IS GOLD?

By A. A. MAGNUS

*Gold, the value of which used everywhere to be taken for granted, has not been excluded from the colossal process of revaluation of all values taking place in the world at the present time. We have asked Dr. Magnus, whom our readers know as the author of several penetrating articles on economy, to analyze the problem of gold in the past and the present. In undertaking to write about so complex a subject as the gold standard within the limitations of a magazine article, the author is bound to take too much for granted for some readers and too little for others. In order not to make his article too involved, Dr. Magnus has used the quantitative equation of money in its simplest form and has avoided a detailed discussion of discount and interest policy.—K.M.*

GLITTERING gold! Human beings have always been attracted, gladdened, but also led astray by this glitter. The curse of gold in the saga of the Nibelungs is sufficient proof that, even in prehistoric times, man was already aware of the conflict between the beauty and the evil of gold.

As good as gold! Here gold is set up as a standard, perfect and impervious to outward change.

Gold as an ornament and gold as a hoard: these are the two uses to which mankind first put this metal. As time went on, it revealed other qualities. Without inordinate expense, it could be obtained in uniform purity; nevertheless, it was and has always remained comparatively rare. Gold is easy to transport, easy to hide, and is not essential to the maintenance of life. This last quality recommended its use for a purpose which cattle, shells, or slaves had hitherto served: for use as money.

Not until modern times has there been an appreciable use of gold in medicine and industry. In the first decade after the Great War, twenty to thirty per cent of the world's gold production was used for arts and crafts, industry, and medicine.

In studying the problem of gold, we must always bear in mind that gold is nothing but a commodity, just like silver or salt, which can be put to various uses. Silver used formerly to be a treasure; today any moderately well-off man in a silver-producing country can afford to have plates made of silver. Should the use of gold decline in the world, and should the processes of obtaining gold continue to become cheaper, as they have during the last few decades, the price of gold may be reduced to such an extent that gold plates will no longer be the privilege of kings. At any rate, dental repairs would become a lot cheaper.

#### GOLD MONEY

In order to be able to exchange the fruits of his labor for other objects, man created money. Money is a means of transporting work as well as the realization of demand. It is just as much a means of transport as railways, ships, telegraph, and telephone. Like all means of transport, money is dependent on certain technical prerequisites in order for it to function properly. And its functions are: a medium of exchange and a standard of value.

Man began by using objects taken from among his own requirements. Thus he used cattle, salt, or shells as a medium of exchange, as money. A commodity did not become money as the result of an official stipulation but simply as the result of custom. The more mankind began to specialize in different types of work, and the more the various occupations began to differ from each other, the more problematical did a means of exchange become that was limited to definite use. How can an artisan, who owns no land and has no pasture rights, accept cattle in exchange for his products! Hence some medium of exchange had to be found whose use and storage were not dependent upon occupational conditions. Metals inevitably recommended themselves for this purpose among all the races. The possibility of immediate utilization thus receded before the intrinsic value of the metal.

Before this could happen, however, it was essential that there be a system of weights. With their sexagesimal system of weights the ancient Babylonians were probably the first widely to employ precious metals as money. But the possibilities of ascertaining the purity of the metals were still very limited. Neither the Babylonians nor the Egyptians nor the Chinese thought of fixing the degree of purity of a piece of metal by stamping it. The first ones to progress beyond the mere determination of weight were the Lydians in Asia Minor, who in the seventh century B.C. minted coins.

#### CONFUSION OF COINS

The time it took from the first gold coin to the creation of the first gold-standard currency was no less than 2,500 years! The English gold currency was established in 1816. We can only touch upon the painful process which mankind has passed through in the twenty-five centuries up to the creation of this monetary system. A close study of it shows one that monetary systems are just as imperfect and subject to change as all other human institutions.

What, then, were the worst pangs in this 2,500-year-long road to the gold standard? While formerly commodities whose value could not be sharply defined served as means of payment, mankind now possessed pieces of metal which could be minted according to requirement as units of a certain size and which were interchangeable. But who had the right to mint? Was it not possible for one to be cheated since, in spite of the minting, one could not tell whether the money had full value or not? When cattle was used as a means of exchange, everyone could judge the value for himself, although this value could always only be estimated roughly; now only the dealers in gold and silver could really assess the value. In order to circumvent the dangers threatening here, the state authorities granted minting monopolies to trustworthy persons or to persons whom they believed to be trustworthy. Since the borders of the various domains were in part ill-defined, and many towns possessed state authority and their own minting right, many kinds of newly minted monetary units came into being which circulated simultaneously.

Even in Lydia there were from the very beginning two kinds of gold coins based on different weight systems. In addition to this, gold competed with silver and copper as minting metal. Furthermore, there was the subdivision of the basic units. After all, it was one of the advantages of metal that it could be divided according to requirements, while a slave or an ox being used as a monetary unit could not very well be split up. This confusion of the many different kinds of coins was a calamity which lasted for thousands of years. Toward the end of the Middle Ages, for instance, there were six hundred mints in Germany alone. The situation in Italy was similar, while France and England managed to centralize their minting systems earlier, thanks to their earlier political centralization.

It was inevitable that a state whose powers were on the increase should seek for a uniform monetary system in the interests of its people. There were two points to which particular attention had to be paid: the relationship between intrinsic value and monetary unit, and the relationship among the various minting metals.

In economic life there is a sort of law of inertia. People become accustomed to a certain relationship between intrinsic value and monetary units, say, for instance, between the gold content and the term "ducat." When this relationship has remained stable for a number of years, they believe in a natural relationship between material and unit and are slow to notice any decrease in the gold content of the ducat. Sometimes they will continue to give the same quantity of goods for the ducat for a long time, and the further they are from the big towns the longer they will go on doing this. This phenomenon can be exploited for good as well as for evil. In 594 B.C., Solon reduced the gold content of the Athenian coins by a quarter in order to relieve the general indebtedness from which the economic life of Athens threatened to suffocate. But there have also been kings who shunned the effort of working out a proper state budget and who balanced the resultant deficits by coin deterioriation. Coin deteriorations have occurred throughout the 2,500 years up to the establishment of the gold standard. They represent the devaluations of their times.

Coin deterioration was often unavoidable because there was not enough metal in the country to mint the required quantity of coins of full value. On the other hand there have also been cases where the quantity of circulating money rose considerably, either as the result of collected war indemnities or as a result of discoveries of large metal deposits within the domain of the currency. If in such cases the quantity of goods produced in the country did not rise in the same proportion—and before the development of modern industry this was possible only to a very limited extent—there were more monetary units to every commodity unit, i.e., prices rose. In modern terms, this meant inflation with all its unpleasant consequences. Thus we see that even in the times of metal money there were cases of a foolish creditor nation causing an unbalancing of the gold and silver stocks, thereby violating the laws enabling money to function as a means of transportation—usually in the end to its own harm. This error is cited as one of the causes of the downfall of the Spanish world empire.

### A HEADACHE FOR THE STATE

To cover the demand for means of payment, the state had, until the creation of serviceable money, to let gold and silver circulate simultaneously. This resulted in the problem of maintaining a comparatively stable relationship between the value of gold and silver. If the face value and metal value of a coin are to be identical and the relationship in the value of two metals changes, the face values of the coins would really have to be changed accordingly. This, however, would contradict the law of inertia in economics, which calls for the utmost stability of prices, i.e., the retention of the old relationship between the quantity of goods and the quantity of money.

What was to be done? At one time, more silver was found, so that gold became comparatively more rare and thus more expensive and everyone demanded payment in gold coins; at another time, it was the other way round. In the early history of Europe, the relationship of the value of a kilogram of gold to the value of a kilogram of silver fluctuated between 1:9 and 1:13. After the collapse of the Roman Empire, a lot of gold was withdrawn from circulation for purposes of hoarding, and the relationship shifted to as much as 1:18. During the Middle Ages the old relationship gradually returned, with the fluctuations becoming less, lying between 1:10 and 1:12. After 1500 A.D. the discoveries of silver increased at a greater rate than those of gold. Fluctuations grew bigger. But until 1870 never more than 16 kilograms of silver were given for one kilogram of gold. Not until then did the increasing devaluation of silver start which continued without any noticeable relapse until 1933, by which time the relationship between gold and silver had become 1:76. This crash caused the American silver-mine owners and workers to induce Roosevelt to support and fix the price of silver. It is an interesting fact that the country which pretends to be fighting for free economics disregarded the "natural" price and fixed the purchasing price for silver in the USA at such a level that the relationship between gold and silver became 1:27. As a result of this astonishing price, the silver of China and India flowed into the United States, so that 800 million people saw themselves deprived of their accustomed medium of exchange.

We must return to the eighteenth century once more to obtain a clear idea of the gold-silver problem. Gold is too rare a metal for it to be able to cover the entire demands of a country for means of payment. Hence silver must also be used. There are two systems for regulating the relationship of gold to silver: double currency and parallel currency. In the case of a double currency, the state fixes a firm relationship between gold and silver. This system usually founders in practice on the fact that the relationship in the market value of gold and silver is constantly fluctuating and does not agree with the fixed relationship.

England made many vain attempts with the double currency through the centuries. In 1663 it was decided to switch to another system, that of parallel currency. The various gold coins formed one system, and the various silver coins a second, independent system. Their relationship was determined daily according to the relationship of the market value of gold and silver. The constant complicated calculations proved so excessively inconvenient that in 1718 the country returned to the double currency. As it was found impossible to give the silver a proper value, the government was forced in 1774 to limit the legal paying power of silver coins. From then on, it was not necessary to accept more than £25 sterling in silver. This dealt a blow to the legal double currency in England from which it was never to recover. The second blow came in 1790, when the market price of silver fell considerably. As a result, the government prohibited the minting of silver for private account, and with this rescinding of the free minting right for silver the gold standard was practically created.

Thereafter the English mint minted only gold coins for private account, namely, 77s/10½d from every ounce of standard gold (11/12 fine). Anyone who brought gold was given coins at this rate less a small minting charge, and anyone who brought gold coins worth 77s/10½d received one ounce of standard gold. Silver money was minted only by the state and had a lower silver content than its face value represented. It became money like paper money, which owes its value to the power of the state.

### 15 YEARS OF INTERNATIONAL GOLD STANDARD

So far we have spoken chiefly of gold money in its function as a standard of value and of the uncertain state of affairs arising from the competition of silver. Now we shall turn more to gold's function as a medium of exchange. Whether these two functions can really be separated will be dealt with later.

With the spreading industrial development it became doubtful whether bills of exchange would suffice as the sole additional means of payment beside metal coins. After France's unsuccessful experiments with paper money in 1720 and 1790, Prussia and England were more successful during the Napoleonic Wars. As a result, the use of bank notes increased rapidly throughout the nineteenth century. Then cheques were introduced. Bills of exchange are covered by goods, and cheques by credits. The bank note represents a mixture of goods and credit coverage. While up to now any increase in trade had required a corresponding increase of precious metals, a period of saving precious metals by means of cheques and bank notes now began. Formerly the existing reserves of gold and silver had represented a relatively inelastic quantity as opposed to the quantity of goods offered in trade. If the quantity of precious metal increased more rapidly than the quantity of goods, there were more pieces of gold and silver for each unit of goods, and prices rose. If the quantity of precious metals did not follow the increase in the quantity of goods, prices fell. By means of paper money, a certain elasticity between the two quantities could be achieved. However, it is always difficult to determine the size of the entire quantity of money as well as the size of the total quantity of goods, so that the actions of the note-issuing banks, which were entrusted with paper, gold, and silver, remained comparatively mechanical. They are mirrored in the regulations concerning metal coverage.

The more silver became devaluated, the more the English example of gold currency was followed in other countries. The difficulties which had arisen throughout the history of Europe from the fluctuations of gold and silver gradually passed into oblivion. There was a general feeling of relief, and people forgot that there might also be a hitch in the gold-standard system.

The advantages of a uniform monetary standard, especially for trade and accounting, which could be observed in the case of England led the newly united German Empire to follow her example in 1871, all the more so as the French war indemnity, which had to be paid in gold, formed a solid basis for the introduction of a gold standard. The Scandinavian countries and Holland, which were closely linked to Germany by their trade and their geographical position, followed suit in a few years, although the relationship between gold and silver did not yet directly force them to this step. In their case, the increase in railway communications and thus of foreign trade may have been the principal motive. The fact that Central Europe now required less silver for currency purposes was bound to have an unfavorable effect on the market price of silver. The Latin Currency Union (France, Belgium, Italy, and Switzerland) introduced the gold standard in 1878, when silver declined further in value. Japan went over to the gold standard in 1897, when China had to pay her 360 million yen in war indemnities in gold for the war of 1895/98. The silver-producing states in the USA fought desperately against the introduction of the gold standard, but in 1900 they were defeated by foreign-trade interests.

TABLE I

**Introduction of the Gold Standard**

| Years | Relationship of Gold to Silver | Countries |
|---|---|---|
| 1816/20 | 1:15.51 | England (1816) |
| 1870/75 | 1:15.97 | German Empire (1871), Holland and Scandinavia (1873) |
| 1876/80 | 1:17.81 | Latin Currency Union (1878) |
| 1896/1900 | 1:33.48 | Japan (1897), United States (1900) |

With the introduction of the gold standard in the United States began the legendary fifteen years of the widespread gold standard —i.e., the adopting of the English currency system and the acceptance of British financial world domination—which were to end so abruptly in the Great War. After the Great War, the re-establishment of the international gold standard was struggled for as if it were a matter of returning to a cultural heritage proved throughout the centuries. Moreover, these attempts were made to revive a system the conditions for which had been changed fundamentally and in which such vast, densely populated countries as China and India had not participated —quite aside from the fact that now there were two centers of world finance, London and New York.

### DEFECTS OF THE GOLD STANDARD

If one bears in mind that the gold standard was first introduced by the largest gold-producing country, England, and was skillfully propagated by her for a hundred years; if one remembers that the next great gold-standard country was Germany, who wanted to invest her gold war indemnity in a profitable way; and if one finally sees that Japan was in a similar position—one is tempted to doubt whether it was really only the practicality of the system itself which led to its introduction.

But let us assume that this was really the case. The special advantages of the gold standard are said to be that it makes possible a uniform system of world prices, that it is automatic and unpolitical, and that it guarantees a comparatively uniform distribution of the gold reserves of the world. In any case, the gold standard had the one advantage that in it the price of gold was a simple, uniform yardstick by which to measure all other prices. If, for instance, in Sweden the prices of commodities rose in comparison to the price of gold, this meant that her export prices rose and the quantity of goods she exported sank. The consequence of this was a passive trade balance and the export of gold to cover the deficit. This in turn meant that the gold coverage for the note issue of the Swedish State Bank sank, a coverage which, as in every gold-standard country, is fixed at a certain ratio in order to maintain the people's confidence in the paper money. In order to attract gold, the Swedish central bank had now to raise its rate of discount above that prevailing in neighboring countries, which meant simultaneously that the cost of domestic credits went up. Here we have the contact point between the international commodity gold and the domestic price level. The increase in the cost of domestic credits leads to a reduction in the circulation of bank notes and thus to an increase of the gold coverage of the notes, but at the same time to a downward pressure on the domestic price level. With the decrease of prices, exports rise, more gold is brought into the country, and the discount rate can be reduced. With the increase of gold, credits can be increased again, and the general price level rises again slowly, until exports decline and with them the import of gold.

The outcome of the system is a linking up of the domestic with the foreign price level. This produces an increased foreign trade, but at the same time a sensitiveness on the part of every domestic economic process toward any perceptible change of price in the world. As a result of this linked-up price level, the production of wheat, for example, may become unprofitable in Sweden without any change having occurred in that country. It is sufficient that wheat production in Canada should become so cheap that Canadian wheat plus shipping costs can be offered cheaper in Sweden than Swedish wheat. In other words, through the import of Canadian wheat, the Swedish trade balance becomes passive, and the pressure on prices occurs which we explained above. If the Swedish farmers would now reduce their standard of living, they could rid themselves of the Canadian competition. This example is enough to indicate some of the principal political problems. Hence it is doubtful whether the gold standard was really so unpolitical as it has always been claimed to be.

At any rate, the gold-standard system was by no means as automatic as it was generally described. The management of the central bank was free to decide what it would regard as adequate gold coverage; for as a rule the note-issuing banks had far more gold than was needed for the minimum coverage stipulated by law, so that the management was not dependent on this minimum coverage in its action. Consequently, the gold-standard currency was a far more "manipulated" currency than would have been admitted at the time. Naturally, political considerations were liable to have a strong influence on these decisions, whether they concerned the discount policy or an open-market policy.

A further restriction on the automatic working of the gold standard resulted from the fact that, in times of economic difficulty, those countries which exported capital could limit these exports or those countries importing capital could make efforts to increase their foreign loans. Both these steps are, of course, of a highly political nature. Moreover, the possibilities of a loan policy show that the distribution of gold need not be uniform at all. Indeed, it was fairly uniform during the century before the Great War for the sole reason that England used her active balance of payments, not to hoard gold, but to extend long-term foreign loans. The United States felt herself free of any such obligation and thus made the gold-standard system unfeasible.

### THE COLLAPSE OF THE GOLD STANDARD

We have seen that, for thousands of years, gold was only one among several metal means of exchange, and that it was not until the second half of the nineteenth century that it rose to a position of sole domination. By now the comparative rarity of gold and silver had become so unequal that it was no longer possible to base any relationship on the natural scarcity of the two metals. The production of gold had increased to such an extent that gold alone became sufficient, all the more so since paper means of payment were simultaneously widely resorted to. Here the gold standard began to be undermined, even before the Great War, in so far as actual payments in gold were gradually found to be inconvenient and expensive, and it became common practice to form large gold reserves in the vaults of the note-issuing banks and to hold gold demand notes on foreign countries.

However, the gold standard did not receive its first serious blow until the Great War, when the obligation to redeem bank notes against gold was rescinded in all European countries. Napoleon had financed all his wars with metal money, and a hundred years later the governments believed that such huge quantities of gold would be needed for imports that the domestic gold circulation would have to be suspended. In actual fact, however, the rescinding of the gold-coverage stipulations was needed to free the hands of the governments to print money for the increasing domestic requirements for means of payment. Although the import requirements of many belligerent countries were considerable, to everyone's astonishment the international value of gold sank. In other words, the demand for many goods whose production declined as a result of the war rose to such an extent that the buyers were willing to pay more gold for a commodity unit than before the war.

This distortion of commodity prices continued during the first few years after the war and provided a disappointment to those countries which had acquired large quantities of gold as suppliers during the war. Not until the first hunger for goods had been satisfied after the war did commodity prices decline, which meant a rise in the value of gold. By now, however, this value of gold was really too high again for the re-establishment of the gold standard, which was now being attempted as if it were a symbol of true peace—actually with far too much emotion, a curious phenomenon in connection with so prosaic a thing as money.

Wide circles believed that the best guarantee for the economic prosperity of a country was for it to participate in world trade in the same sense as before the war. To this end, no other means could be thought of than that the country should have a gold-standard currency. Since many of the countries concerned did not have sufficient gold to let it circulate as currency within their borders, they had to be satisfied with a gold-reserve currency. In this form of gold currency, the central bank issues irredeemable notes for circulation while maintaining a gold reserve which guarantees a certain relationship between one gram of gold and the monetary unit. The only gold movements that take place are those between banks for international clearing purposes.

This gold-standard system worked under the assumption that, among all commodities, the value of gold had the greatest inertia and thus was best suited for the payment of long-term obligations. But what was forgotten was that the gold distribution in the world had meanwhile changed. The United States and France had collected such vast gold treasures that a domestic currency measure which might be quite reasonable within the country could have far-reaching effects on the rest of the world, effects which could not be countered as had been possible in times when all countries had large gold stocks at their disposal for counteroperations.

The new gold parities were fixed at very high levels, so that, with declining commodity prices, a credit could turn into a dangerous burden. Moreover, as the result of the war, there was a large quantity of short-term credits throughout the world, which could quickly be called up from one country to another. In this unstable situation the collapse of a stock boom in New York in 1929 produced unexpected consequences. It led to a collapse of the raw-material markets. This beginning of what has been called the world economic crisis meant that for one commodity unit, for which hitherto one gold unit had to be paid, now only half a gold unit had to be paid. Or, vice versa, for one gold unit, for which one had hitherto given one commodity unit, one had now to give two commodity units. With this the former inertia in the relationship between commodities and gold, i.e., in the last analysis the foundation of the gold standard, had collapsed.

This crash of commodity prices, or this increase in the value of gold, meant that all debts suddenly represented double the commodity value. All wages, all taxes, suddenly had double the commodity value. In the long run, no economic system can stand such a strain. It became apparent that one country after another had to change its former ratio of gold unit to monetary unit. The value of the gold unit was reduced, either in a firm relationship or a fluctuating one to the price of gold. The following list of devaluation shows the landslide the consequences of which the currency experts of the whole world have tried to overcome for ten years, up to the outbreak of the present war.

TABLE II

**Currency Devaluations As a Result of the World Economic Crisis**

| | | | |
|---|---|---|---|
| 16 | Dec. | 1929 | Argentina |
| 25 | ,, | ,, | Australia |
| 25 | July | 1931 | Mexico |
| 21 | Sept. | ,, | Great Britain |
| ,, | ,, | ,, | Malaya |
| ,, | ,, | ,, | India |
| ,, | ,, | ,, | Palestine |
| ,, | ,, | ,, | Colombia |
| 23 | ,, | ,, | Egypt |
| 25 | ,, | ,, | Bolivia |
| 26 | ,, | ,, | Ireland |
| 29 | ,, | ,, | Denmark |
| ,, | ,, | ,, | Sweden |
| ,, | ,, | ,, | Norway |
| 8 | Oct. | ,, | San Salvador |
| 12 | ,, | ,, | Finland |
| 19 | ,, | ,, | Canada |
| 13 | Dec. | ,, | Japan |
| 31 | ,, | ,, | Portugal |
| 1 | Jan. | 1932 | New Zealand |
| 20 | Apr. | ,, | Chile |
| 26 | ,, | ,, | Greece |
| 11 | May | ,, | Thailand |
| 18 | ,, | ,, | Peru |
| 28 | Dec. | ,, | South Africa |
| 19 | Apr. | 1933 | USA |
| 28 | June | ,, | Estonia |
| | Feb. | 1934 | Czechoslovakia |
| 31 | Mar. | 1935 | Belgium |
| 25 | Sept. | 1936 | France |
| 27 | ,, | ,, | Switzerland |

A vast literature has been published on this currency crash, which inflicted losses upon the world that can be compared only to those brought by the Great War. In connection with our theme, we must first remind our readers of that phenomenon which is known as "gold shortage." As the result of the excessive price level, it became impossible to mine gold in quantities corresponding to the increase in the world's production of commodities. The following table shows the world's production of gold.

TABLE III

**Annual World Gold Production**

(in 1,000 kg.)

| | | | |
|---|---|---|---|
| 1901/05 | 485 | 1933 | 785 |
| 1906/10 | 652 | 1934 | 740 |
| 1911/15 | 702 | 1935 | 930 |
| 1916/20 | 591 | 1936 | 1,016 |
| 1921/25 | 540 | 1937 | 1,075 |
| 1926/30 | 611 | 1938 | 1,145 |
| 1928 | 600 | 1939 | 1,215 |
| 1929 | 610 | 1940 | 1,340 |
| 1930 | 640 | 1941 | 1,310 |
| 1931 | 680 | 1942 | 1,190 |
| 1932 | 740 | 1943 | 990 (estimated) |

Since about 1924 the gold standard had been reintroduced for the various currencies. The world production of commodities had increased rapidly as a result of this stabilization, but there was no question of a corresponding increase in the production of gold: it remained more or less steady at around 600,000 kilograms a year. However, the simple catchword "gold shortage" is not enough to characterize the situation before the world economic crisis. The responsibility for this disaster was rather to be found to a large extent in the impossible construction of reparations and inter-Allied debts. It stripped first Germany and then gradually the rest of the world of its gold reserves. The result was a grotesque inequality in the supply of gold, which was veiled by the short-term lending of gold to the states without gold. The United States believed it to be possible to maintain an active trade balance and simultaneously to collect debts. Since the USA would accept no goods, these debts could only be paid in gold, and the production of gold was expensive. Finally, gold became so scarce that it rose rapidly in value, i.e., commodity prices crashed. The various currencies lost their balance, and in the end the debt payments to the USA had to be stopped entirely.

The American gold "experts" now attempted to make it possible for the debtors to pay by reducing the gold value of the dollar. Roosevelt and his advisers were proud when they increased the value of the troy ounce of fine gold from $20.67 to $35.00 in 1933. The US dollar, which formerly contained 0.048 ounces of gold, now contained only 0.029 ounces, i.e., it had only 60 per cent of its former gold or commodity value. Like old Solon of Athens, Roosevelt made the dollar lighter in order to lighten the burden of debts. According to his own statement, Roosevelt hoped by this means if possible to arrive at a less fluctuating purchasing power of the dollar. He said that he wanted to find that kind of a dollar which even a generation later would have the same purchasing power and debt-payment power as the dollar of the immediate future. This desire for stabilization is contradicted by the power given to him at the same time by Congress if necessary to increase the gold-purchasing price by as much as another 20 per cent. In these circumstances, one could no longer speak of gold as an ultimate standard of value.

As a result of the general crash in commodity prices, those things had also become cheaper which were needed for the production of gold. Table III shows that, consequent to this, gold production was doubled from 1929 to 1939. In observing this huge increase of gold production as a result of the world commodity-price crash, one is tempted to believe in the old self-curing powers advanced by orthodox liberalism. This belief would be made even more piquant by the consideration that one of the most enthusiastic gold-producing countries is Communist Russia. But we must not let ourselves be led astray. In the last analysis, gold is not mined because some people or other working at the production of gold have the feeling that this gives them a chance to work; no, it is mined solely because there is someone who is willing to buy the gold.

However irrational Roosevelt's buying-up of the world's gold harvest may seem, we must face the fantastic fact that the "champion of liberalism" is practically working toward a world monopoly of gold. But why? What will happen to the value of gold one day when a government of the USA asks: "What are we to do with all these vaults filled with gold?" What will happen to the value of gold when the USA stops her gold purchases one day? Technically speaking, this is quite feasible, for the monetary system of the USA is sufficiently advanced for her to be able to secure a stable enough trend of prices by keeping a tight rein on bank-note circulation. Thus, if Roosevelt decided to stop the gold purchases, a serious crash in the price of gold and a corresponding upward rush of commodity prices would be unavoidable.

The fact that some of the devaluating countries went off the gold standard because of a lack of gold reserves, and the others in spite of more than sufficient gold reserves, proves that the gold reserve no longer has any natural connection with the value of the currency. Gold has become a commodity which has been given an artificially fixed price, as happened to silver not long before. Roosevelt's cautious words mentioned above also go to show clearly that gold is now only one of several world commodities which have lost their price inertia and which are to be brought back to a steady price trend by artificial means.

The crux of the problem is to be found in the question: why have so many world commodities—gold, silver, cotton, coffee, wheat, rubber, tea, sugar—lost this inertia? Why must they all be supported nationally or internationally? One is obliged to reply: scientific and technical developments are offering increasing possibilities of production unrelated to labor or consumption, so that the famous free play of forces is leading to chaos. It is only large-scale planning which can protect mankind from the consequences of this trend. Gold is no longer the means of safeguarding a steady trend in the level of prices. The question of price has become a task of national economic policy, and the relationship of the price levels among the independent economic *Grossraums* will be an open problem of economic policy. It is better for the nations that the illusion should disappear that there might be a mechanical solution here, as had been believed in the case of gold mechanism in complete disregard of the problem of loans. The adjustment of trade between the various *Grossraums* will always remain a noble task. To discuss the technique of its solution now would mean a premature advance into the coming period of peace. The practical means were demonstrated by Germany in the years before the present war.

### GOLD AS A STANDARD

In the years from 600 B.C. to 1914, gold simultaneously fulfilled the functions of a medium of exchange and a standard of value. Before that, it had been a commodity like any other, which could be given in payment. After the Great War, gold became a standard of value again, but only to a limited degree a means of payment. For the inhabitants within a country, the possession of gold as a means of payment was prohibited or impossible, and gold remained a means of payment only in international trade. This limited form of a gold-reserve currency was a failure. It turned out that the concentration of gold in the vaults of the central note-issuing banks facilitated a sudden change in the value of gold. Indeed, the consideration of maintaining a gold reserve was an obstacle to a steady trend in the value of gold. When a state maintains the value of its currency solely by keeping a tight rein on the means of payment, thus safeguarding a steady trend in the purchasing power of the currency, its subjects are better protected than if they have to participate in the anxieties of the state over maintaining a gold reserve.

In his famous work on money, Helfferich describes the development of money as follows. At first, certain commodities fulfilled an extra monetary function (cattle, salt, etc.). Then came the metals, whose value rested at first entirely and later partially on the fact that the coins could also be melted down and sold as a commodity. Then came paper money, which is valueless as a commodity and which embodies a purely monetary function. At first its value was founded on the fact that it could be exchanged for gold; today its value is founded solely on the knowledge and sense of responsibility of the country's ministers of finance.

For its proper working, the gold standard required not only an equal ratio of increase in gold production and world commodity production: it required an economic balance as a whole. In other words, it did not create this balance. The problematical nature of the gold standard became quite clear when a gold-standard country like France could do nothing whatever with her reparations in gold. Even within the camp of the gold-standard champions it has been admitted that it was the policy of reparations—carried out against all better knowledge—and the treatment of inter-Allied debts which finally brought about the collapse of all attempts to reintroduce the gold standard and led to the world economic crisis.

A medium of exchange such as gold cannot function if its distribution is entirely unequal. If cattle was a medium of exchange in primitive times, and if a village lost all its cattle through a disease, it could not make any payments at all to a neighboring village. Cattle money became meaningless in the trade between these two villages. The USA seems to have made up her mind to destroy the meaning of gold in the trade between herself and most other countries in the world. We simply cannot imagine what the USA intends to do with her present possession of eighty per cent of the monetary gold of the world and her vast lend-lease claims on the chief gold-producing countries, the British Empire and the Soviet Union. Gold will become meaningless and valueless. Even the plans of Morgenthau and Keynes cannot cover up this fact, for they only seek to balance the distribution of gold by means of credits, a method which has already failed in the case of the Dawes and Young Plans.

Shortly before the outbreak of the present war, the general attitude really seemed clearer. At that time, no possibility was envisaged of linking the various currencies to gold any longer, as the ruthlessness and incalculableness of Roosevelt's gold policy was regarded an insurmountable obstacle. The countries without gold had learned from Germany's example how to get along without gold, all the more so as they were aided by the general trend of history which is toward an increasing strengthening of governmental power and toward paper money. Moreover, modern mass production has made possible such a rapid increase in the quantity of goods that the quantity of means of payment based on gold cannot follow quickly enough. The fundamental condition for a stable value of money is a balance between the quantity of money and the quantity of goods, and such a balance can no longer be warranted by gold. The function of gold as a standard of value has become a thing of the past.

WHAT TO DO WITH GOLD?

So we must conclude by asking what functions there remain for gold. Gold will remain a stabilizing metal for currencies in primitive countries with weak governments. In addition to this, it may serve in more highly developed states with properly manipulated paper currencies as a means for balancing foreign-trade debits if these cannot be balanced by credits because of lacking confidence. The fixing of the value of gold will, however, be an increasingly difficult economic question, indeed, a question of power. Thus we believe in a strong decline in the use of gold, and it is hardly a coincidence that not only Japan but also the Anglo-American countries have curtailed their gold production since 1942. At present the reason given for the closure of gold mines is that the workers are needed for war-important jobs. But even after the war the gold mines will not be reopened, for, in view of the limited uses, the existing gold stocks are already far too high. Consequently, the price of gold must be supported artificially, like that of diamonds, cultured pearls, coffee, and rubber. If eighty per cent of the world's gold stocks remain in the hands of the USA, the price of gold will be so much subject to political whim that no other state can afford to place its economy in dependence of so insecure a standard. Indeed, no one will even risk hoarding gold in large quantities. Thus the price level of the one quarter of the world's annual gold production which serves industrial and artistic purposes rests on a very unstable basis.

From a technical point of view, gold has retained its glitter and its constancy, and it has not yet been possible to produce it synthetically. But economically it has lost its former comparative independence of state and society, and with that half of its former basis of value.

## *What is a Jeep?*

In recent months, "jeeps," a type of small cross-country automobile, have been mentioned as being much in use in the US Army. The other day we were asked what this word meant. All we could think of was two exclamations we had often heard in America: "Jumping Jeepers!" and "Jeepers Creepers!" But then we had no proper idea of what these exclamations meant. We imagined vaguely that a jeep must be some sort of a bug or little animal, perhaps to be found in the West. So we began to look up dictionaries. But without success. Not even in Mencken's *The American Language* was there the slightest hint. Then we applied to one of our friends, an authority in the field of American slang. "Why," he said, "that's quite simple: Jeep is Popeye's dog—you know, the one that always rescued Sweetpea."

But finally, after much guessing and many questions, we ran across an old American magazine which contained the history of this vehicle. According to it, the small car was given all kinds of fancy names when it first appeared: "iron pony," "blitz buggy," "leaping Lena," etc. But none of these names caught on. The US Army authorities, meanwhile, prosaically dubbed the vehicles "General Purpose Cars" or "G.P. Cars." "G.P.'s" soon turned into "Jeeps," and that is the name that has stuck.

## *Fourth Term*

Pennsylvania's Senator Joseph F. Guffey said:

"There is no American tradition which says that a good President cannot serve four terms in the White House."

Said a political wag: "There's a law against bigamy but none against trigamy."